

U. S. TREASURY DEPARTMENT  
Internal Revenue Service  
Washington 25, D. C.

Alcohol and Tobacco Tax Division  
Industry Circular No. 55-16

July 14, 1955

Proposed Amendments of Parts 220, 221, and 225  
Relating to Distilled Spirits

Proprietors of registered distilleries,  
fruit distilleries, and internal revenue  
bonded warehouses; and others concerned:

1. Continuing study is being given to regulations governing the operations of distilleries and internal revenue bonded warehouses, and to the supervision exercised by Government officers at such premises. Proposals for simplification of procedures have been submitted by the Distilled Spirits Institute and other industry representatives and have been carefully considered by this office. Other proposals have been developed by the division's national office staff. It is proposed to amend the regulations to incorporate these changes by issuing a Treasury decision to be effective on or about October 1, 1955. This industry circular is issued to provide a preview of the contemplated changes and enable you to begin planning the transition to the new procedures. In certain areas, changes in equipment may be necessary while in others special training of personnel may be involved.

2. The major changes to be proposed would provide that (1) nighttime supervision of distilleries by storekeeper-gaugers will be discontinued except where necessary because of the use of special processes such as those involved in the production of gin and vodka, (2) the responsibility for making and recording certain entry gauges in the cistern room will be assumed by the distillers, (3) full responsibility for correct identification of spirits, including the preparation of certain records, will rest with the distillers, and (4) distillers will furnish advance schedules of planned operations to the storekeeper-gauger.

3. Basically, the provisions which are intended to discontinue continuous on-premises supervision of distilleries during the night hours are similar to those which were provided in regulations relating to industrial alcohol plants by Treasury Decision 6090, which provisions have apparently occasioned a minimum of operating difficulties. In order to adapt such provisions to distilleries, it is necessary that (a) waste lines from stills be so controlled that spirits cannot be diverted; in many instances, this security

can be provided by permanently connecting the waste lines of stills to sewers (provision will be made to exempt beer stills, thus permitting the recovery of spent beer or stillage), (b) air or water lines to unfinished spirits tanks (for scrubbing, reducing, etc.) will be permanently connected to the tanks, and water lines so connected will be equipped, under certain conditions, with meters to measure the quantity of water added to the spirits, (c) addition of approved treating agents to spirits in unfinished spirits tanks in the absence of the storekeeper-gauger must be by means of devices (locked hoppers, etc.) which will permit the addition of such substances without permitting abstraction of spirits, and (d) routine samples of unfinished spirits shall be taken by means of mechanical sampling devices. It is apparent that certain changes in present equipment and installation of new equipment will need to be made. Consideration should be given to each of the items listed and if there are questions concerning the type of sampling device, water meter, or device for adding chemicals, the problems should be discussed with the storekeeper-gauger in charge and the assistant regional commissioner.

4. The proposed amendments would transfer to distillers the responsibility for making and recording entry gauges in the cistern room except those where removal is (a) upon payment of tax, (b) for exportation, or (c) for deposit in an internal revenue bonded warehouse for subsequent withdrawal on the original gauge. In order that Government officers may exercise suitable control of entry operations, it is necessary that each receiving cistern be equipped with an etched gauge glass or other equally permanent gauge device. No receiving cistern may be used subsequent to the effective date of the proposed regulations, until the Government officer has affixed thereto a certificate showing that the cistern has been found to be accurately calibrated.

5. In providing that responsibility for product identification shall rest with the distillers, the amendments would require the distiller to maintain records of operations which will enable internal revenue officers to trace the movement of spirits from initial distillation to deposit of the finished spirits in receiving cisterns.

6. In order that the storekeeper-gauger in charge may effectively plan the work of storekeeper-gaugers, thus avoiding unnecessary delay in distillery operations, the proposed amendments will provide that the distiller shall furnish the storekeeper-gauger each business day a schedule of operations

planned for the next succeeding work day. This schedule may be a copy of any commercial schedule which the proprietor prepares for his own management purposes.

7. Liberalizations which are proposed for inclusion in the amendment of the regulations include:

(1) Permitting, under certain conditions, communicating doors between distillery premises and off-premises rooms or buildings.

(2) Discontinuing the requirement for weighing or measuring and reporting materials received (except when received in bond as in the case of wine for distillation and spirits for redistillation).

(3) Permitting the volumetric gauge of spirits removed by pipeline from distilleries to bonded warehouses operated by the distiller or his affiliate or subsidiary.

(4) Permitting the receipt of distilled spirits for redistillation without special application.

(5) Providing for the exportation of vodka.

(6) Permitting the use of tank trucks for exportation of distilled spirits.

(7) Authorizing the storekeeper-gauger at consignor premises to approve applications to transfer distilled spirits in bond.

(8) Permitting the removal of fermented materials from a distillery, before being distilled, if fermented for the purpose of carrying on a business (other than distilling) authorized by regulations.

(9) Authorizing assistant regional commissioners to permit certain warehouse windows to remain open at other than regular business hours for ventilating purposes.

(10) Permitting the mingling of neutral spirits distilled in different seasons in warehouse storage tanks.

(11) Authorizing storekeeper-gaugers to approve applications to rebottle, relabel, and restamp, bottled-in-bond spirits.

(12) Permitting distillery equipment to be erected on distillery premises outside a room or building.

(13) Authorizing storekeeper-gaugers to approve applications (Forms 206) to export spirits, where the exportation is made under a continuing bond.

(14) Authorizing storekeeper-gaugers to issue certificates of origin for spirits being exported.

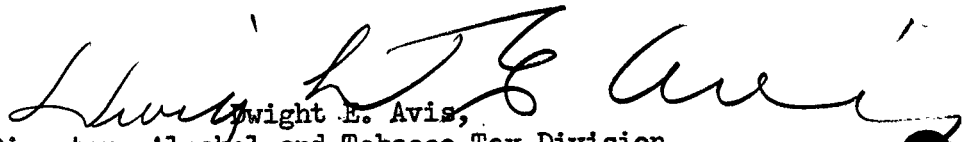
(15) Permitting bottling in bond, from the same tank of spirits, for both domestic use and exportation.

(16) Providing more flexible procedures for the withdrawal, free of tax, of distilled spirits for use on aircraft engaged in international flights.

The procedures outlined in this paragraph have been discussed with members of the industry and their representatives and probably will be understood without further explanation.

8. It is important that this circular receive your very careful attention so that you can begin your planning concerning equipment changes or additions, to insure that your operations will not be delayed upon the effective date of the new regulations. The staff of the National Office as well as those of the Regional offices will be available for purposes of consultation and study of individual plant problems. You are encouraged to work closely with the Government officers assigned to your plant and with those who may visit the premises for purposes of inspection, in order that your questions can be quickly answered or referred to a higher level for consideration.

9. The issuance of this circular at this early date is intended to facilitate the discussion of your individual problems with Government personnel concerned. Probably most inquiries can be processed by your assistant regional commissioner and should, accordingly, be addressed to him and refer to the number of the circular. Correspondence with this office should be marked: Attention: O:AT:PP.

  
Dwight E. Avis,  
Director, Alcohol and Tobacco Tax Division.

IRS-11611